



August 4, 2011

AQUA AMERICA INC. (WTR)

Rating: **NEUTRAL**
Current Price: **\$21.78**
Target Price: **NA**

Garik Shmois
T: 216-525-8414
E: gshmois@longbowresearch.com

Industry: Water Utilities							Valuation		Valuation	
Fiscal Year: Dec		1Q11A	2Q11A	3Q11E	4Q11E	FY11E	Multiple	FY12E	Multiple	
Market Cap (\$MM):	2,990	EPS:	\$0.22	\$0.27	\$0.35	\$0.22	\$1.06	20.5x	\$1.10	19.8x
		Prior:	-	\$0.23	-	-	\$1.02		\$1.09	
Net Debt (\$MM):	1,535	Consensus:			\$0.33	\$0.24	\$1.03	21.1x	\$1.06	20.5x
Enterprise Value (\$MM):	4,525	Last Year:	\$0.16	\$0.22	\$0.32	\$0.21	\$0.90			
Shares - FD (MM):	137.3									
		EBITDA:	\$0.67	\$0.77	\$0.95	\$0.76	\$3.15	10.5x	\$3.38	9.8x
Dividend:	\$0.58	Growth:	10%	8%	7%	7%	8%		7%	
Yield:	2.7%									
Beta:	0.69	Revenue:	\$171	\$188	\$223	\$188	\$771	5.9x	\$837	5.4x
Rel. P/E (FY2011E):	167%	Growth:	7%	5%	7%	5%	6%		9%	

WTR: Solid Quarter All Around

SUMMARY

- WTR reported adjusted 2Q11 EPS of \$0.27 (vs. 2Q10 of \$0.22), ahead of our \$0.23 forecast and consensus of \$0.24. Results include \$0.03/share positive state income tax benefit associated with a 100% bonus depreciation allowance. The tax benefit is scheduled to expire next year and will likely impact EPS by \$0.04/share in 2H11.
- Revenues increased 6% y/y to \$188M vs. our 9% forecast. The majority of the increase was attributable to rate increases and surcharges, while the remaining portion was due to increased consumption and organic growth. Consumption by residential customers reportedly increased modestly, while consumption by industrial/commercial customers declined compared to the year-ago period.
- O&M expenses increased 2% y/y and are up just 1% in 1H11. The company's O&M ratio declined 140bp y/y during the quarter. Despite an expected increase in input costs, management believes that O&M expenses will only increase 3% y/y in FY11. Longer term, management believes that the O&M ratio will settle in the 36-37% range, which it believes to be achievable by FY13. Economies of scale are expected to be the key driver behind the improvement.
- Cash flow from operations exceeded capex in 1H11 and will likely exceed initial expectations of \$325M in FY11. As a result, management sees no need to issue equity or debt in the foreseeable future.
- Management indicated that the First Call mean 3Q11 estimate of \$0.33/share looks reasonable, though noted that the quarter would include a number of one-time items related to the bonus depreciation in PA as well as a \$0.05/share impact related to held-for-sale accounting regarding the company's decision to exit Maine and New York. As a result, we are maintaining our 3Q11E EPS of \$0.35, which includes a \$0.02/share impact from the bonus depreciation. Our FY11E EPS goes to \$1.06 on account of the 2Q beat and our FY12E EPS goes up by \$0.01 to \$1.10.
- We are maintaining our NEUTRAL rating, mainly on valuation as shares are trading at 20.5x our FY11E EPS of \$1.06 and 19.8x our FY12E EPS of \$1.10.



INVESTMENT THESIS

We rate WTR shares NEUTRAL. While we are encouraged by the potential for earnings growth from improved ROEs under systems that were acquired in the southern states in 2003-04, as well as the resumption of acquisition activity, we believe shares are fairly valued at these levels. Shares are currently trading at 20.5x our FY11E EPS of \$1.06 and 19.8x our FY12E EPS of \$1.10, which is a slight discount to the company's historical 23x average. While we believe WTR should be valued at a premium given the company's size and operational efficiency (the O&M ratio is currently industry leading), we see less upside given valuations are reflecting historically in-line multiples.

DISCUSSION OF DETAILS

WTR reported adjusted 2Q11 EPS of \$0.27 (vs. 2Q10 of \$0.22), ahead of our \$0.23 forecast and consensus of \$0.24. Results include \$0.03/share positive state income tax benefit associated with a 100% bonus depreciation allowance. Sales of \$118M increased 6% y/y, slightly worse than our 9% view.

WTR Summary 2Q11						
<i>FY Ends December 31</i>	2Q10A	2Q11A	y/y act.	LBR 2Q11	y/y est.	Actual/LBR
Total Revenue	178.4	188.2	6%	194.4	9%	-3%
Operations & Maintenance	69.3	70.4	2%	75.6	9%	-7%
Depreciation and Amortization	30.1	29.5	-2%	30.9	3%	-5%
General Taxes	12.9	13.4	4%	15.6	21%	-14%
Total Expenses	112.4	113.4	1%	122.1	9%	-7%
Income from Operations	66.1	74.8	13%	72.4	9%	3%
Other Income & Expenses (net)	1.6	2.1	31%	1.6	0%	31%
EBIT	67.6	76.9	14%	73.9	9%	4%
Interest Expense	18.5	20.1	9%	20.1	9%	0%
Income Before Taxes	49.1	56.8	16%	53.8	10%	6%
Provision for Income Taxes	19.3	20.1	4%	21.5	11%	-7%
Net Income	29.8	37.6	26%	32.3	8%	17%
EPS (fully diluted)	0.22	0.27	23%	0.23	6%	16%

Source: Company Reports, LBR Estimates

O&M Expenses: Operations and Maintenance expenses increased 2% y/y and are up just 1% in 1H11 compared to the year-ago period as management remains focused on controlling costs. The company's O&M ratio declined 140bp y/y during the quarter and has improved 210bp YTD. We note that WTR already has the highest efficiency ratio among the large publically traded water utilities and operating margins of 39.8% came in ahead of our 37.2% forecast. Management noted that while it is witnessed a modest degree of cost inflation in chemicals, purchased water and energy, it expects O&M expenses to increase just 3% y/y in FY11, which is better than their previous internal expectations. Longer term, management believes that the O&M ratio will settle in the 36-37% range, which it believes to be achievable by FY13. The key driver behind this noteworthy reduction is due to the company's recent portfolio optimization strategy, whereby it has been able to increase economies of scale by expanding operations, particularly through acquisitions/asset-swaps, in those states where it can achieve critical mass, while exiting those markets where its operations are spread thin. On account of these recent actions, the company operates in just nine regulated states vs. 14 earlier this year while maintaining a very comparable customer count. Additionally, WTR remains focused on improving its O&M ratio on a state-by-state level. Most notably, as a testament to the benefits the company is able to realize from economies of scale, WTR was able to reduce its O&M ratio in Texas from the mid-50% range to the mid-40% range now in a relatively short period of time. Other key markets, like Illinois, Ohio, Pennsylvania and New Jersey are trending well below those levels. Meanwhile, the O&M ratio markets like North Carolina and Virginia remain in the 50% range, though are expected to decline as the company improves efficiencies in those markets.



The company's focus on cost controls helps its cash flows and reduces its reliance on outside funding for its capital programs.

Revenue Growth: Revenues increased 6% y/y to \$188M vs. our 9% forecast, 2/3 of which was attributed to rate increases and surcharges, while the remaining portion was due to increased consumption and organic growth. Consumption was reported as up modestly compared to the year-ago period as residential customers (80% of sales) increased usage on account of warm weather. That said, industrial and commercial consumption (20% of sales) declined compared to the year-ago period as the economic recovery remains somewhat muted. We were forecasting a 4% decline in consumption

The company offered limited additional insight into its operations in PA, TX and OH that are expected to benefit from hydraulic fracking, which requires 1M gallons of water annually per well. WTR has aligned its operations in those regions, in particular, as it views this niche-market to be a key aspect of forthcoming water-energy nexus. As a reminder, WTR is in the early stages on setting up a number of "water stations" in areas surrounding the drills in order to provide the necessary water to the drillers. The company noted that the price it can charge drillers is unregulated and, as such, carries higher margins (with added risk) than the water provided in the company's normal course of business. The company was hesitant to offer guidance as to what sort of impact this new business opportunity may have on top-line growth, though we expect overall EPS contribution to be minimal in the near term, though there could be modest upside going forward.

Rate Cases: YTD, the company has received water and wastewater rate awards that are expected to increase annualized revenues by ~\$18M. Roughly 2/3 of the \$18M in awards came from infrastructure surcharges, while the remaining portion came from formal rate cases. Additionally, WTR has \$25M of rate cases pending before seven state regulatory bodies, most notably in NC, TX and IL. Last, the company expects to file rate cases in seven states in 2H11, which are expected to increase annualized revenues by \$45-50M once approved.

Acquisition Outlook: WTR has been active on the M&A front recently and has engaged in a number of asset swaps with its peers in recent months as it looks to build critical mass in certain key states to generate economies of scale. As a reminder, in 4Q10, AWK (BUY, \$32TP) agreed to sell its regulated Texas operations to WTR and simultaneously purchase WTR's regulated Missouri operations, leading to greater operational efficiencies and economies of scale for both companies. WTR made a second such asset swap with AWK during the quarter, whereby AWK has agreed to sell its regulated Ohio operations to WTR and simultaneously purchase WTR's regulated New York operations. The acquisitions are subject to regulatory approval in each respective state and are expected to close by 1Q12. Additionally, the company recently sold its Maine operations to Connecticut Water Service (CTWS, NR) for \$53.5M. Taken together, the company has signed agreements to exit SC, MO, NY and ME, while further expanding its presence in various fast growth markets where it can achieve critical mass and realize economies of scale. The company now operates in nine regulated states vs. 14 previously. We note that WTR remains focused on expanding its operations in those states it believes will benefit from natural gas (shale) drilling, which is a water-intensive process. The company has already aligned its operations in TX, PA and OH to benefit from growth in this niche market.

While small tuck-in acquisitions remain a focus for WTR, with a number of potential deals still in the pipeline. Mostly interestingly, the company noted that it would be a serious bidder for the Philadelphia Department of Water's assets if the city chooses to sell off its water system in an attempt to close its pension deficit. While nothing has been finalized and there is no indication that the assets will be on the auction block, company management believes that megacities like Philadelphia are finally beginning to consider the privatization of their water assets amid cutbacks in funding. Indeed, WTR noted that it is already fielding a number of calls from medium-sized cities in the Midwest that are interesting in divesting their assets. We note the company already has operations in the suburbs surrounding Philadelphia and generates ~52% of its revenues in the state.

Capex: WTR invested \$134M in capex thus far in 1H11 (\$74M in 2Q) and expects to invest a record \$325M in FY11, which is in line with previous expectations and is on par with FY10 levels. As a reminder, the company expects to construct three solar plants that are expected to produce 2,000 kilowatts of electricity as a means to



reduce purchased energy costs. The company estimates that the solar plants will reduce its purchased power costs by \$300,000 annually. We are forecasting FY11 capex of ~\$315M.

No Need for External Financing: WTR is generating ~98% of its cash internally and 1H11 marked the first period in which the company's net cash generation exceeded capex spend. As a result of cash flow from operations exceeding its capex budget, management has no plans to issue debt or equity in the foreseeable future. We note the company has \$64M available under its existing line of credit and has an average weighted cost of fixed-rate long-term debt of 5.34%, which is essentially flat q/q.

ESTIMATE REVISION

The company indicated that the Street's consensus estimate of \$0.33 for 3Q11 appears reasonable though noted that the quarter would include a number of one-time items related to the bonus depreciation in PA as well as a \$0.05/share impact related to held-for-sale accounting regarding the company's decision to exit Maine and New York. As a result, we are maintaining our 3Q11E EPS of \$0.35, which includes a \$0.02/share impact from the bonus depreciation, though does not account for the \$0.05 one-time charge. Our FY11E EPS goes to \$1.06 on account of the 2Q beat and our FY12E EPS goes up by \$0.01 to \$1.10. There may be modest upside to our FY12E EPS estimate on account of rate cases and further improvement in the company's O&M ratio. We expect 6% and 9% revenue growth over the next two years, respectively.

Furthermore, the company now expects to generate EBITDA of ~\$440 vs. ~\$420-425M in FY11, nothing that EBITDA in 1H11 was up 10% y/y, generally in line with a 10-year CAGR of 10%. We are modeling EBITDA of \$436M in FY11 and believe management's guidance to be reasonable.

VALUATION

WTR shares closed yesterday at \$21.78 which is 20.5x our FY11E EPS of \$1.06 and 19.8x our FY12E EPS of \$1.10. The shares are trading at a discount to the company's historical 23x average, though within the normalized range of 20-30x forward P/E.

RISKS

Potential downside risks to our investment thesis, rating and estimates include, but are not limited to: 1) a delay in rate case processing or lower rate increases by the regulators than our expectations, 2) a significant revenue loss from lower water demand caused by weather or economic conditions, 3) a significant increase in input costs, including electricity, fuel, chemical and purchase water prices, and 4) large acquisition(s) at excessive valuation(s) (significantly above the rate base).

Potential upside risks include, but are not limited to: 1) favorable rate case approvals above our expected ROE, 2) weather conditions leading to near-term revenue increases, and 3) a pullback in input costs.



Aqua America (WTR)
Quarterly Earnings Statement
(dollars in millions, except per share data)

FY ends December 31

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11E	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E
Total Operating Revenue	139.3	150.8	177.1	159.8	154.5	167.3	180.8	167.9	160.5	178.4	207.8	179.3	171.3	188.2	223.2	188.3	190.9	201.7	233.2	210.8
Operation & Maintenance	64.3	65.1	66.7	65.9	67.0	68.5	68.5	66.0	67.6	69.3	73.0	70.1	67.3	70.4	77.0	71.6	77.9	77.8	82.1	80.1
Depreciation	21.5	20.6	22.8	23.9	26.4	25.0	25.4	26.2	26.2	26.8	27.5	27.6	27.3	27.6	27.8	30.9	31.1	31.3	31.5	25.3
Amortization	1.2	1.0	1.8	1.5	2.8	3.1	3.0	3.1	3.2	3.3	3.6	2.9	2.0	1.9	3.4	3.4	3.4	3.4	3.4	3.4
General Taxes	12.1	10.8	11.2	10.6	11.6	11.9	12.4	12.2	12.9	12.9	14.2	13.0	13.8	13.4	15.6	13.2	14.3	14.1	14.0	14.8
Recovery of restructuring costs																				
Total Expenses	99.1	97.6	102.5	102.0	107.7	108.5	109.4	107.5	109.8	112.4	118.2	113.6	110.3	113.4	123.8	119.1	126.7	126.7	131.0	123.6
Income from Operations	40.2	53.1	74.6	57.9	46.8	58.9	71.5	60.4	50.7	66.1	89.6	65.7	61.0	74.8	99.4	69.3	64.2	75.0	102.2	87.2
Operating Margin (%)	28.9%	35.2%	42.1%	36.2%	30.3%	35.2%	39.5%	36.0%	31.6%	37.0%	43.1%	36.7%	35.6%	39.8%	44.5%	36.8%	33.6%	37.2%	43.8%	41.4%
All. for Borrowed Funds Used in Const.	1.0	1.1	1.0	0.6	0.6	0.6	0.7	0.9	1.5	1.5	1.1	1.0	2.0	1.9	1.5	1.6	1.7	1.7	1.6	1.7
Gain (loss) on sale of other assets		0.6	0.5	0.5	0.1	0.1	0.2	0.1	1.9	0.1	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other																				
EBIT	41.2	54.8	76.1	59.0	47.5	59.5	72.4	61.4	54.2	67.6	90.9	67.0	63.1	76.9	101.1	71.0	66.1	76.9	104.0	89.1
EBIT (%)	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	36.6%	33.7%	37.9%	43.8%	37.3%	36.8%	40.9%	45.3%	37.7%	34.6%	38.1%	44.6%	42.3%
Interest Expense	17.1	17.1	17.0	17.4	16.6	16.8	17.3	17.9	18.4	18.5	19.2	19.6	19.9	20.1	20.0	21.2	21.4	21.6	21.8	19.9
Income Before Taxes	24.0	37.7	59.1	41.7	30.9	42.7	55.1	43.5	35.7	49.1	71.8	47.4	43.1	56.8	81.1	49.9	44.8	55.3	82.3	69.2
Provision for Income Taxes	9.7	15.2	23.7	16.0	12.5	16.9	21.6	16.8	14.2	19.3	28.1	18.5	12.8	19.2	32.4	19.5	17.9	22.1	32.9	27.0
Implied Tax Rate	40.4%	40.2%	40.1%	38.4%	40.5%	39.5%	39.3%	38.7%	39.8%	39.3%	39.1%	39.1%	29.6%	33.8%	40.0%	39.0%	40.0%	40.0%	40.0%	39.0%
Net Income before extraord. Item	14.3	22.6	35.4	25.7	18.4	25.9	33.5	26.7	21.5	29.8	43.7	28.9	30.4	37.6	48.7	30.4	26.9	33.2	49.4	42.2
Comprehensive Income	14.3	22.7	35.2	25.7	18.4	26.1	33.3	26.8	21.1	29.8	43.7	28.9	30.4	37.6	48.7	30.4	26.9	33.2	49.4	42.2
Diluted Net Income Per Share	0.11	0.17	0.26	0.19	0.14	0.19	0.25	0.20	0.16	0.22	0.32	0.21	0.22	0.27	0.35	0.22	0.19	0.24	0.36	0.30
Weighted Avg. Shares	134.0	134.1	135.3	135.6	135.9	135.9	136.3	136.5	136.8	137.3	137.4	137.9	137.8	138.4	139.1	139.5	138.2	138.6	139.1	139.5
Financial Summary (values in %)																				
Revenue Growth	1.4%	0.1%	7.0%	7.2%	10.9%	11.0%	2.1%	5.0%	3.9%	6.6%	14.9%	6.8%	6.7%	5.5%	7.4%	5.0%	11.4%	7.1%	4.5%	11.9%
Operations & Maintenance/Revenue	46.2%	43.2%	37.7%	41.2%	43.4%	41.0%	37.9%	39.3%	42.1%	38.8%	35.1%	39.1%	39.3%	37.4%	34.5%	38.0%	40.8%	38.6%	35.2%	38.0%
EBIT (% of rev.)	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	36.6%	33.7%	37.9%	43.8%	37.3%	36.8%	40.9%	45.3%	37.7%	34.6%	38.1%	44.6%	42.3%
General taxes as % of revenue	8.7%	7.2%	6.3%	6.7%	7.5%	7.1%	6.9%	7.3%	8.0%	7.3%	6.8%	7.2%	8.0%	7.1%	7.0%	7.0%	7.5%	7.0%	6.0%	7.0%
EBITDA	63.8	76.4	100.7	84.4	76.7	87.5	100.8	90.7	83.5	97.8	122.0	97.5	92.3	106.4	132.3	105.3	100.6	111.6	138.9	117.8
Net Income Growth	-15.0%	-5.0%	19.9%	3.0%	28.3%	14.6%	-5.4%	3.9%	17.1%	15.5%	30.6%	8.2%	41.1%	25.9%	11.3%	5.4%	-11.5%	-11.7%	1.5%	38.6%
EPS Growth	-15.5%	-5.3%	18.6%	1.8%	26.5%	13.0%	-6.1%	3.2%	16.3%	14.4%	29.5%	7.1%	40.0%	24.9%	10.0%	4.2%	-11.7%	-11.9%	1.5%	38.6%

Source: Aqua America and Longbow Research
 Garik Shmois
 216-525-8414
gshmois@longbowresearch.com



Aqua America (WTR)
Annual Earnings Statement
(dollars in millions, except per share data)

<i>Income Statement</i>	FY04A	FY05A	FY06A	FY07A	FY08A	FY09	FY10	FY11E	FY12E
Total Operating Revenue	442.0	496.8	533.5	602.5	627.0	670.5	726.1	771	837
Operation & Maintenance	178.3	203.1	219.6	253.1	262.1	270.1	280.0	286.3	317.9
Depreciation	54.6	60.7	70.9	83.2	88.8	103.0	108.2	113.6	119.2
Amortization	4.3	4.7	4.1	4.8	5.5	11.9	13.0	10.7	13.6
General Taxes	27.6	31.7	33.3	45.4	44.7	48.1	53.0	56.0	57.2
Total Expenses	264.8	300.3	327.9	386.5	401.2	433.1	454.1	466.6	508.0
Income from Operations	177.2	196.5	205.6	216.0	225.8	237.5	272.0	304.5	328.7
Operating Margin (%)	40.1%	39.6%	38.5%	35.9%	36.0%	35.4%	37.5%	39.5%	39.3%
Allow. for Borrowed Funds Used in Const.	2.3	2.4	3.9	3.0	3.7	2.9	5.1	7.0	6.7
Gain (loss) on sale of other assets	1.3	1.2	1.2	3.5	1.6	0.5	2.6	0.6	0.7
Other	-	-	-	-	-	-	-	-	-
EBIT	180.8	200.1	210.7	222.5	231.1	240.8	279.6	312.1	336.1
EBIT (%)	40.9%	40.3%	39.5%	36.9%	36.9%	35.9%	38.5%	40.5%	40.2%
Interest Expense	48.7	52.1	58.4	66.9	68.6	68.6	76.3	81.2	84.6
Income Before Taxes	132.1	148.1	152.3	155.5	162.5	172.2	203.4	230.9	251.5
Provision for Income Taxes	52.1	56.9	60.2	60.5	64.6	67.8	80.1	83.9	99.9
Implied Tax Rate	39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	39.4%	36.3%	39.7%
Net income	80.0	91.2	92.0	95.0	97.9	104.4	123.3	147.0	152.6
Comprehensive Income	78.1	89.8	95.3	94.8	97.9	104.7	122.0	147.0	152.6
Diluted Net Income Per Share	0.64	0.71	0.70	0.71	0.73	0.77	0.90	1.06	1.10
Weighted Avg. Shares	125.7	129.2	131.8	133.6	134.7	136.1	137.3	138.7	138.8
Financial Summary (values in %)									
Revenue Growth	20.4%	12.4%	7.4%	12.9%	4.1%	6.9%	8.3%	6.2%	8.5%
Operations & Maintenance/Revenue	40.3%	40.9%	41.2%	42.0%	41.8%	40.3%	38.6%	37.1%	38.0%
Dep/Net Fixed Asset	3.0%	2.9%	3.1%	3.3%	3.2%	3.4%	3.4%	3.3%	3.3%
Depreciation Growth	12.5%	11.3%	16.7%	17.3%	6.7%	16.0%	5.0%	5.0%	5.0%
General taxes as % of revenue	6.2%	6.4%	6.2%	7.5%	7.1%	7.2%	7.3%	7.3%	6.8%
Interest Exp/ Average Net Debt	5.6%	5.3%	5.8%	5.9%	5.2%	5.0%	5.0%	4.8%	4.9%
Interest Expense/Revenue	11.0%	10.5%	11.0%	11.1%	10.9%	10.2%	10.5%	10.5%	10.1%
EBITDA	239.7	265.6	285.7	310.5	325.4	355.7	400.8	436.4	468.9
Net income growth	13.0%	13.9%	0.9%	3.3%	3.1%	6.6%	18.1%	19.3%	3.8%
Average ROE	11.4%	11.7%	10.6%	10.0%	9.6%	9.6%	10.8%	12.1%	11.8%
EPS Growth (ex special items and FAS 123)	7.0%	10.9%	-1.0%	1.9%	2.2%	5.5%	17.1%	18.1%	3.7%

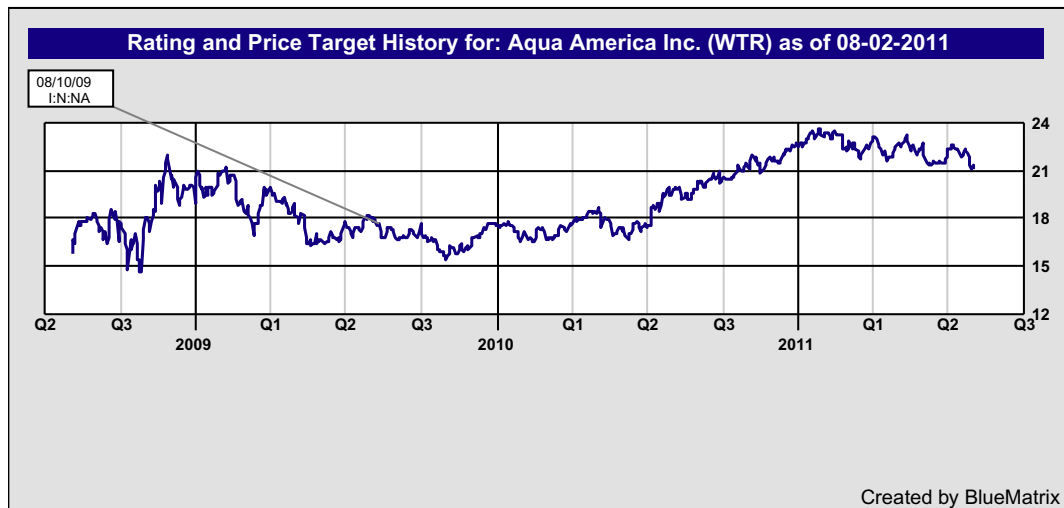
Source: Aqua America and Longbow Research
 Garik Shmois
 216-525-8414
gshmois@longbowresearch.com

WATER INDUSTRY PEER VALUATION
(\$ in millions, except per share data)

Company	Ticker	FY End	Rating	Target	% Upside	Share Price	52 Week		Mkt Cap	Revenue Last	Last FY	Earnings per Share		P/E		Dividend Rate	Price/Book	
							Hi	Lo				Current FY	Next FY	Current FY	Next FY			
U.S. WATER UTILITIES																		
AMER STATES WATER	AWR	Dec.	Neutral			\$34.26	\$38.59	\$31.24	\$ 629	\$ 434	2.02	2.00	2.15	17.1x	15.9x	3.3%	0.9x	
AMERICAN WATER WORKS	AWK	Dec.	BUY	\$32	13%	\$28.29	\$30.70	\$19.92	\$ 5,134	\$ 2,093	1.53	1.72	1.88	16.4x	15.1x	3.0%	1.1x	
AQUA AMERICA	WTR	Dec.	Neutral			\$21.78	\$23.79	\$17.00	\$ 2,976	\$ 726	0.90	1.06	1.10	20.5x	19.8x	2.9%	2.6x	
CALIFORNIA WATER	CWT	Dec.	Neutral			\$18.36	\$19.25	\$16.93	\$ 764	\$ 460	1.81	2.04	2.22	9.0x	8.3x	3.4%	1.8x	
ARTESIAN RESOURCES	ARTNA	Dec.	NR			\$18.84	\$19.99	\$17.08	\$ 146	\$ 65	1.01	1.01	1.15	18.7x	16.4x	3.9%	1.5x	
CONNECTICUT WATER	CTWS	Dec.	NR			\$26.67	\$28.27	\$20.80	\$ 218	\$ 66	1.13	1.25	1.27	21.3x	21.0x	3.7%	2.1x	
MIDDLESEX WATER	MSEX	Dec.	NR			\$18.55	\$19.31	\$15.48	\$ 294	\$ 103	0.94	1	1.00	18.6x	18.6x	3.9%	1.6x	
PENNICHUCK	PNNW	Dec.	NR			\$28.43	\$28.75	\$20.95	\$ 135	\$ 36	0.85	0.8	1.15	35.5x	24.7x	2.6%	2.3x	
SIW	SIW	Dec.	NR			\$24.04	\$28.00	\$21.88	\$ 432	\$ 216	0.93	0.99	1.11	24.3x	21.7x	3.0%	1.9x	
YORK WATER CO (THE)	YORW	Dec.	NR			\$16.98	\$18.00	\$13.42	\$ 219	\$ 39	0.71	0.76	0.80	22.3x	21.2x	3.0%	2.4x	
Average														20.4x	18.3x	3.3%	1.8x	
EQUIPMENT/ FILTRATION/ TREATMENT SECTOR																		
PENTAIR	PNR	Dec.	BUY	\$47	33%	\$35.35	\$40.57	\$29.41	\$ 3,758	\$ 3,031	2.00	2.47	2.91	14.3x	12.1x	2.1%	1.7x	
WATTS WATER TECH	WTS	Dec.	Neutral			\$31.34	\$40.75	\$27.51	\$ 1,234	\$ 1,275	1.94	1.93	2.50	16.2x	12.5x	1.3%	1.5x	
AMERON INT'L	AMN	Nov.	NR			\$85.04	\$85.25	\$55.42	\$ 590	\$ 503	5.10	1.80	3.62	47.2x	23.5x	1.9%	1.1x	
BADGER METER	BMI	Dec.	NR			\$37.06	\$45.49	\$33.98	\$ 552	\$ 277	1.88	1.67	2.01	22.2x	18.4x	1.5%	3.9x	
CALGON CARBON	CCC	Dec.	NR			\$16.23	\$18.20	\$11.75	\$ 926	\$ 482	0.75	0.82	0.98	19.8x	16.6x	0.0%	2.5x	
ENERGY RECOVERY	ERII	Dec.	NR			\$3.00	\$4.57	\$2.35	\$ 147	\$ 46	-0.08	(0.15)	-0.01	NM	NM	0.0%	1.6x	
FRANKLIN ELECTRIC	FELE	Jan.	NR			\$44.51	\$48.23	\$27.62	\$ 1,012	\$ 714	1.94	2.50	2.89	17.8x	15.4x	1.2%	2.2x	
GORMAN-RUPP	GRC	Dec.	NR			\$31.46	\$36.74	\$19.20	\$ 658	\$ 297	1.22	1.46	1.69	21.5x	18.6x	1.1%	2.7x	
ITRON	ITRI	Dec.	NR			\$43.25	\$67.60	\$47.03	\$ 1,923	\$ 2,265	4.00	4.23	4.22	10.2x	10.2x	0.0%	1.6x	
LAYNE CHRISTENSEN	LAYN	Jan.	NR			\$27.12	\$38.00	\$23.01	\$ 546	\$ 1,026	1.54	1.98	2.23	13.7x	12.2x	0.0%	-	
MUELLER WATER PRODUC	MWA	Sept.	NR			\$2.53	\$4.80	\$2.21	\$ 575	\$ 1,338	-0.19	0.00	0.15	NM	NM	1.9%	1.2x	
NORTHWEST PIPE	NWPX	Dec.	NR			\$27.55	\$26.89	\$14.62	\$ 229	\$ 387	-0.16	1.21	1.89	22.8x	14.6x	0.0%	0.9x	
PALL	PLL	Jul.	NR			\$47.66	\$59.50	\$33.32	\$ 6,273	\$ 2,402	2.12	2.94	2.94	16.2x	16.2x	1.3%	3.7x	
SMITH (A.O.)	AOS	Dec.	NR			\$40.69	\$45.80	\$30.87	\$ 1,871	\$ 2,026	2.87	2.10	2.46	19.4x	16.5x	1.4%	2.1x	
Average														17.4x	14.8x	0.8%	2.0x	
WATER RESOURCES/ INFRASTRUCTURE																		
INSITUFORM TECH	INSU	Dec.	NR			\$18.64	\$30.00	\$18.10	\$ 733	\$ 915	1.50	1.29	1.81	14.4x	10.3x	0.0%	1.7x	
LINDSAY	LNN	Aug.	NR			\$61.36	\$85.87	\$30.80	\$ 747	\$ 358	1.83	2.67	-	22.2x	20.1x	0.6%	2.0x	
TETRA TECH	TTEK	Sept.	NR			\$20.78	\$27.16	\$18.00	\$ 1,389	\$ 2,201	1.22	1.41	1.64	16.0x	13.9x	0.0%	1.7x	
Average														17.6x	15.3x	0.7%	2.2x	
Relevant Indices																		
Dow Jones Industrials	DJ30																Share Price	\$11,817.00
S&P 500	SPX																Share Price	\$1,255.50
Nasdaq Composite	NDX																Share Price	\$2,304.25

Source: Baseline; Company reports and LBR Estimates. EPS reflects diluted EPS, excluding extraordinary items. Numbers in italics reflect consensus estimates.

** Time period for annual estimates may vary based on reporting date.



APPENDIX

IMPORTANT DISCLOSURES

REGULATION ANALYST CERTIFICATION ("REG AC"): The Research Analyst(s) who prepared this research report hereby certifies that the views expressed in the research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certifies that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Covered Companies Mentioned In This Report:

Aqua America Inc.	WTR	\$21.78	Neutral
-------------------	-----	---------	---------

GENERAL DISCLOSURES: Longbow Securities does not make a market in any securities, nor does it hold a principal position in any security. Longbow Securities does not engage in Investment Banking business. Security prices in this report may either reflect the previous day's closing price or an intraday price, depending on the time of distribution. Consensus estimates are derived from either Thomson/Reuters, Bloomberg or Baseline. Designated trademarks and brands are the property of their respective owners.

SPECIFIC DISCLOSURES:

- Longbow Securities does not make a market in the securities of any company mentioned in this report, and is not a market maker in any securities. Nor does the firm hold a principal position in any security.
- As of the date of this report, no officer, director or stockholder of Longbow Securities, or any member of their immediate families, holds securities of any company mentioned in the report. In the event such persons purchase, hold or sell securities of a company mentioned in the report for their own account, any subsequent report shall disclose the fact of any such ownership or transactions.
- As of the date of this report, no employee of Longbow Securities serves on the Board of Directors of the subject security or any other security mentioned in this report.
- As of the date of this report, neither the Research Analyst nor a member of the Research Analyst's household serves on the Board of Directors of the subject company or any other security mentioned in this report.
- As of the date of this report, neither Longbow Securities nor its affiliates beneficially own 1% or more of an equity security of

the subject company or any other security mentioned in this report.

- As of the date of this report, neither the Research Analyst nor a member of the Research Analyst's household has a financial interest in the securities of the subject company or any other security mentioned in this report.

RATINGS DISTRIBUTIONS FOR LONGBOW RESEARCH:

Rating Category	Count	Percent
Buy	87	37.2%
Neutral	146	62.4%
Sell	1	0.4%

RATING SYSTEM:

“Buy” means that Longbow Securities expects total return to exceed 20% over a 12-month period.

“Neutral” means that Longbow Securities expects total return to be within a range of plus or minus 20% over a 12-month period.

“Sell” means that Longbow Securities expects total return to be negative by greater than 20% over a 12-month period.

Longbow Research's full research universe and related applicable disclosures can be obtained by calling (216) 986-0700 or via postal mail at: Editorial Department, Longbow Research, 6000 Lombardo Center, Suite #500, Independence, Ohio 44131.

DISCLAIMER: The information, opinions, estimates and projections contained in this report were prepared by Longbow Securities LLC, a wholly owned subsidiary of Longbow Research LLC, and constitute the current judgment of Longbow Securities as of the date of this report. Additional information may be available from Longbow Securities upon request. The information contained herein is believed to be reliable and has been obtained from sources believed to be reliable, but Longbow Securities makes no representation or warranty, either expressed or implied, as to the accuracy, completeness or reliability of such information. Longbow Securities does not undertake, and has no duty, to advise you as to any information that comes to its attention after the date of this report or any changes in its opinion, estimates or projections. Prices and availability of securities are also subject to change without notice. By accepting this report, the reader acknowledges that the report does not purport to meet the objectives or needs of specific investors, and, accordingly, constitutes only “impersonal advisory services” as that term is defined in Rule 204-3 under the Investment Advisers Act of 1940 and that any advice in this report is furnished solely through uniform publications distributed to subscribers thereto within the meaning of Section 2(a)(20)(i) of the Investment Company Act of 1940. The securities discussed in Longbow Research reports may be unsuitable for some investors depending on their specific investment objectives, financial status, risk profile, or particular needs. Investors should consider this report as only a single factor in making their investment decisions and should not rely entirely on this report in evaluating whether or not to buy or sell the securities of the subject company. Longbow Research archives and reviews outgoing and incoming email. Such may be produced at the request of regulators. Sender accepts no liability for any errors or omissions arising as a result of transmission. Use by other than intended recipients is prohibited.

DESCRIPTION: Longbow Securities LLC, a wholly owned subsidiary of Longbow Research LLC, is a primary research provider established in 2003 and headquartered at 6000 Lombardo Center, Suite 500, Independence, Ohio 44131 USA. The company provides research services to institutional investors, investment advisers, and professional money managers. MEMBER FINRA/SIPC. Copyright 2011. All rights reserved. Additional information supporting the statements in this report is available upon request.